

TO: Secretary Paige
FROM: Theresa S. Shaw, Chief Operating Officer, Federal Student Aid
RE: FSA Weekly Report
DATE: December 2, 2002

THE WEEK AHEAD

FY02 Audit: We are on track to make the final variance analysis by COB December 3 for the FFEL (Federal Family Education Loan) and Direct Loan programs. This “flux” analysis is an explanation of differences between FY01 and FY02 for amounts in excess of 10% or \$200 million.

DCS Reconciliation Issues: By December 3, Raytheon is to have prepared a detailed action plan for discussion within the Department. The plan stems from an FSA CFO and Students Channel, and OCFO meeting with Raytheon senior management to go over the Systems Issue Log. The log lists systemic issues that impede timely and accurate portfolio and cash reconciliation of the Debt Collection System (DCS). Concern was expressed that issues resolution hadn’t progressed significantly since the initial meeting last April. FSA staff followed up the meeting with a site visit at Raytheon.

KEY NEWS

HIGH RISK MANAGEMENT

Meeting with GAO on High Risk Designation: On November 25, the COO and other senior leaders and managers from FSA (supported by ED’s CFO and Dep. CFO, and senior staff from ODS and OPE) briefed senior leaders and managers from GAO regarding the Department’s belief that the FSA program high risk designation should be removed. The Department believes that it manages the risk that is inherent by the nature of the SFA programs (providing billions of dollars in grants and loans to millions of applicants through thousands of intermediaries) in a manner that ensures access to postsecondary education while reducing the vulnerability of student aid programs to fraud, waste, error, and mismanagement. ED participants provided evidence that it is following the guidelines provided by GAO for agencies to use to remove high risk designations. For example, the FY02 FSA and ED accomplishments were highlighted that addressed issues raised in an August 1, 2001, GAO letter to the Dep. Sec. from which the FY02 FSA High Risk Plan was developed. GAO was also provided with an overview of the FY03 Performance Plan and High Risk Plan development process whereby FSA and ED demonstrated continued commitment and progress to the receipt of a clean opinion on the Department’s financial statements and management improvements/projects that support FSA’s management of the inherent FSA program risk. During the week, soft copies of the briefing documents were provided to the attendees, as was information on the EDPAS briefings in answer to some of their questions on Performance. GAO was also advised that the meeting would be followed up with a written request for the removal of the high risk designation for the FSA programs,

accompanied with additional information and background. GAO was noncommittal regarding our request and noted that there was a lot of information to consider.

FY03 Performance Plan: FSA's COO and senior management have completed work on the plan for this year, and it has been reviewed with Dep. Sec. Hansen. FSA now is executing the plan, which is built on two main goals: (1) earn an Unqualified audit opinion and (2) get student aid programs removed from GAO's High Risk List. Some of the themes include working:

- To ensure our systems are configured to address any material weaknesses or reportable conditions.
- To ensure our plans properly manage risk.
- To stabilize our systems as we continue to integrate.
- To pay particular attention to data integrity/data accuracy.
- To continue improving our customer service.

PROGRAM INTEGRITY

FY 02 Audit: Regarding FMS to FMSS trial balance differences, the Reconciliation Team, together with OCFO and Budget Service, walked the Ernst & Young auditors through the analysis of the audit sample of 132 items which the auditors selected from a report of differences between the FMS and FMSS systems. ED presented a significant number of the differences as "expected variances," (i.e., variances which are usual and expected between the systems). Examples are FMSS subsidiary systems that are not expected to populate FMS and GAPS transactions that populate each system independently on different source codes. Other variances were found and corrected in the course of the reconciliation efforts. FSA/OCFO/Budget maintain that this analysis is a tool for use in the reconciliations for which FSA is responsible (asset accounts only). The auditors indicated they would like a complete analysis of all accounts as of September 30th.

Termination of Eligibility: On November 21, FSA sent notice to the Rhode Island Beauty Academy in Johnston, Rhode Island, terminating its eligibility to participate in Title IV programs based on its loss of accreditation effective October 7. The school did not appeal termination action initiated on October 18.

Guilty Plea in Fraud Case: On November 20, Linda M. Mrochinski, former associate financial aid director for Central Michigan University in Mt. Pleasant, Michigan, pled guilty to one count of federal student aid fraud. Mrochinski was indicted by a grand jury on five counts of fraud in September 2002. Between 1998 and 2001, Mrochinski applied for and received approximately \$26,000 in Federal Direct Student Loan funds through the university. During this time, Mrochinski withdrew from or cancelled all but one course of study and continued to receive loans by using her position at the university to remove her financial aid suspension status from the computerized financial aid management system. Upon withdrawing from or canceling her courses, Mrochinski received the proceeds of the loans through university refund checks.

ISSUES

Market Research on Student Loan Servicing: Stemming from SLM Corp.'s (Sallie Mae) protest of a recent contract modification, FSA's Office of Student Credit Management has completed the fact-finding phase and preliminary analysis of a market research effort relating to student loan servicing. Information was sought regarding the technical, performance, and management features of student loan servicing systems and the prices charged for such work. The focus, in part, was to identify those best-in-industry practices and prices that might be proposed to FSA if there were to be a competition for Direct Loan servicing work beginning in FY04. A hard copy of a discussion draft report, which includes the preliminary analysis, draft findings and recommendations, was submitted to the COO on November 22.

STUDENT AID OPERATIONS

Record Number of FAFSA Web Applications: The total number of FAFSA Web applications for '02-'03 is 5,001,718 as of November 27. For all of '01-'02 we received 3.6 million Web applications.

KUDOS

FSA Staff Receive Award: Two FSA staff members received the "President's Award" at the Missouri Association of Student Financial Aid Professionals (MASFAP) conference on November 12. This award was given to Tammy Gay and Katherine Coates "in recognition of outstanding service and dedication to the association, students, and colleagues." Tammy and Katherine are client account managers with FSA's Direct Loan Schools Relations Office in Kansas City.

ON THE HORIZON

Shaw to Speak at SWASFAA: COO Theresa Shaw will speak at the Southwestern Association of Student Financial Aid Administrators meeting in Houston on December 11.

Default Conference: The joint Eastern/Northern region Default Aversion Conference is scheduled for December 17-18 in Indianapolis. USA Funds, Inc. is the primary co-sponsor, with other guaranty agencies volunteering support.

CONTACT INFORMATION

Please contact Karen Freeman at 377-4001 with any questions.